

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Leelanau County Road Commission		County Leelanau	
Fiscal Year End December 31, 2007		Opinion Date March 18, 2008		Date Audit Report Submitted to State March 21, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

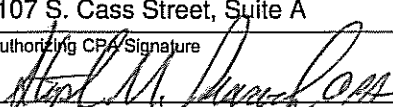
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 231-946-3230		
Street Address 107 S. Cass Street, Suite A		City Traverse City	State MI	Zip 49684
Authorizing CPA Signature 		Printed Name Stephen M. Peacock, CPA		License Number 1101021255

Leelanau County Road Commission
(A Component Unit of Leelanau County)

Suttons Bay, Michigan

Financial Statements

For the Year Ended December 31, 2007



REHMANN ROBSON

Certified Public Accountants

LEELANAU COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

John Popa
Vice – Chairman

Lee A. Bowen
Chairman

Glen Noonan
Member

James Johnson
Engineer

Herbert Cradduck
Superintendent- Manager

Joel Nedow
Clerk

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County)

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REHMANN ROBSON

Certified Public Accountants

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An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

March 18, 2008

Members of the Board of County
Road Commissioners
County of Leelanau, Michigan
10550 E. Eckerle Road
Suttons Bay, Michigan 49682

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Leelanau County Road Commission**, a component unit of Leelanau County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Leelanau County Road Commission's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Leelanau County Road Commission** as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2008 on our consideration of the **Leelanau County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Leelanau County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Leelanau County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Financial Highlights

- Projects for the Road Commission as administered by the Michigan Department of Transportation, financed by federal and state financial assistance, added infrastructure of approximately \$1,231,914.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are combined government-wide and fund financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. The government-wide statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Road Commission's financial health or position.
- The fund financial statements focus on the fund level of funds; detail reporting the operations of the Commission's general fund.

Note that Leelanau County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The County presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the financial statements present the function of the Road Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include construction, repair, maintenance, and snow removal of roads within Leelanau County.

The government-wide financial statements include only the Road Commission itself (known as a component unit of Leelanau County). The Road Commission has no legally separate component units for which the Road Commission is financially accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Leelanau County which reports the Road Commission as a component unit.

The government-wide financial statements can be found pages 9 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a government fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A Budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 13 and 14 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission’s financial statements. The notes to the financial statements can be found on pages 15 through 24 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission’s Net assets increased approximately 9.6% or \$2,178,397 from \$22,771,849 to \$24,950,246 for the year ended December 31, 2007. The net assets and change in net assets at summarized below.

Leelanau County Road Commission Net Assets:

	<u>2006</u>	<u>2007</u>
Current and other assets	\$ 2,377,463	\$ 2,776,369
Capital assets	<u>22,130,155</u>	<u>23,835,302</u>
Total assets	<u>24,507,618</u>	<u>26,611,671</u>
Current liabilities	1,558,907	1,483,274
Long term liabilities	<u>176,862</u>	<u>178,151</u>
Total liabilities	<u>1,735,769</u>	<u>1,661,425</u>
Net assets:		
Invested in capital assets	22,130,155	23,835,302
Unrestricted	<u>641,694</u>	<u>1,114,944</u>
Total net assets	<u>\$22,771,849</u>	<u>\$24,950,246</u>

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Leelanau County Road Commission, assets exceeded liabilities by \$24,950,246 at the close of the most recent fiscal year.

By far the largest portion of the Leelanau County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure).

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2006 and 2007 follows:

	<u>2006</u>	<u>2007</u>
Program revenue		
Charges for services	\$1,035,303	\$ 845,682
Grants and contributions	3,086,909	4,728,595
General revenue		
Taxes	945,971	945,883
Interest and rents	113,062	131,442
Gain on equipment disposal	<u>32,044</u>	<u>43,200</u>
Total revenue	5,213,289	6,694,802
Program expenses	<u>4,292,579</u>	<u>4,516,405</u>
Increase in net assets	<u>\$ 920,710</u>	<u>\$ 2,178,397</u>

Governmental activities increased the Leelanau County Road Commission's net assets by \$2,178,397. The key elements of this increase are as follows:

- Grant and contribution revenue is expended by the Road Commission for construction and heavy maintenance of roads. Under the full accrual method of accounting, these amounts are capitalized as infrastructure additions; therefore, the revenue is not offset by expenditures, causing a significant increase in net assets.

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue and expense budget for 2007 was \$6,694,802 and \$6,250,748, respectively, which the final budget was adjusted to actual revenues and expenses at year end as authorized by the Board by resolution.

Capital Assets and Debt Administration

As of December 31, 2007, the Leelanau County Road Commission had invested \$23,835,302 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,705,147 or 7.7% as follow (in thousands):

	<u>2006</u>	<u>2007</u>
Capital assets not being depreciated		
Land, and improvements	\$ 37	\$ 37
Capital assets being depreciated		
Buildings and improvements	1,606	1,606
Road equipment	7,930	7,884
Other equipment	818	818
Infrastructure and improvements	<u>23,399</u>	<u>26,568</u>
Subtotal	33,753	36,876
Total capital assets	33,790	36,913
Total accumulated depreciation	<u>(11,660)</u>	<u>(13,078)</u>
Total net capital assets	<u>\$ 22,130</u>	<u>\$ 23,835</u>

Additional information of the Road Commission's capital assets can be found in note III.B on pages 20 and 21.

Long-term debt

The Road Commission's long-term debt currently only includes accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The 2008 budget was prepared based on bargaining and nonbargaining employment agreements, the state road commission funding formula and expected construction inflation rates.

Requests for Information

The financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Clerk, Leelanau County Road Commission, 10550 E. Eckerle Road, Suttons Bay, Michigan 49682.

LEELANAU COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET
DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 692,207	-	\$ 692,207
Accounts receivable			
Taxes receivable	888,745	-	888,745
State trunkline maintenance	113,453	-	113,453
Motor vehicle highway funds	409,008	-	409,008
Other	38,549	-	38,549
Inventories			
Equipment material and parts	499,462	-	499,462
Road materials	95,620	-	95,620
Prepaid items	39,325	-	39,325
Capital assets			
Not being depreciated	-	37,276	37,276
Being depreciated	-	23,798,026	23,798,026
Total assets	\$ 2,776,369	23,835,302	26,611,671
LIABILITIES AND FUND BALANCE / NET ASSETS			
Accounts payable	\$ 100,442	-	100,442
Accrued liabilities	30,462	-	30,462
Escrow payable	500	-	500
Advances			
State trunkline equipment purchase	291,958	-	291,958
State trunkline maintenance	62,508	-	62,508
Deferred revenue	997,404	-	997,404
Long-term liabilities			
Accrued compensated absences	-	178,151	178,151
Total liabilities	1,483,274	178,151	1,661,425
Fund Balance/ net assets			
Fund balance			
Reserved for inventory	595,082	(595,082)	-
Unreserved, undesignated	698,013	(698,013)	-
Total fund balance	1,293,095	(1,293,095)	-
Total liabilities and fund balance	\$ 2,776,369		
Net assets			
Investment in capital assets		23,835,302	23,835,302
Unrestricted		1,114,944	1,114,944
Total net assets		\$ 24,950,246	\$ 24,950,246

The accompanying notes are an integral part of these financial statements.

LEELANAU COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2007

Fund balances - General Fund	\$ 1,293,095
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	37,276
Add - net capital assets being depreciated	23,798,026

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - accrued compensated absences	<u>(178,151)</u>
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Net assets of governmental activities	<u><u>\$ 24,950,246</u></u>
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The accompanying notes are an integral part of these financial statements.

LEELANAU COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 6,127,636	\$ (1,611,231)	\$ 4,516,405
Capital outlay	95,499	(95,499)	-
Total expenditures/expenses	6,223,135	(1,706,730)	4,516,405
Program revenue			
Charges for services	845,682	-	845,682
Operating grants and contributions			
State transportation funds	2,835,527	-	2,835,527
Local unit	116,170	-	116,170
Capital grants and contributions			
Federal and state sources	1,271,667	-	1,271,667
Developments	505,231	-	505,231
Total program revenues	5,574,277	-	5,574,277
Net program revenue			1,057,872
General revenue			
Property taxes	945,883	-	945,883
Gain on sale of assets	43,200	-	43,200
Interest and rents	131,442	-	131,442
Total general revenue	1,120,525	-	1,120,525
Total revenue	6,694,802		
Net change in fund balance	471,667	(471,667)	-
Changes in net assets	-	2,178,397	2,178,397
Fund balance/net assets			
Beginning of the year, as restated	821,428	21,950,421	22,771,849
End of the year	\$ 1,293,095	\$ 23,657,151	\$ 24,950,246

The accompanying notes are an integral part of these financial statements.

LEELANAU COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2007

Revenues over expenditures - General Fund	\$ 471,667
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	95,499
Add - Infrastructure purchases	3,169,149
Deduct - depreciation expense	(1,559,500)

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

1,582

Change in net assets of governmental activities	<u><u>\$ 2,178,397</u></u>
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The accompanying notes are an integral part of these financial statements.

LEELANAU COUNTY ROAD COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Permits and licences	\$ 12,000	\$ 10,227	\$ 10,227	\$ -
Federal sources	1,477,000	871,599	871,599	-
State sources				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Primary road	1,668,700	1,703,148	1,703,148	-
Local road	931,300	937,563	937,563	-
Snow removal	195,000	184,816	184,816	-
Economic development funds				
Rural primary	-	360,315	360,315	-
Forest Road	40,000	39,753	39,753	-
Contributions				
Townships	187,000	116,170	116,170	-
Developments	545,000	505,231	505,231	-
Other	20,000	-	-	-
Charges for services				
State trunkline maintenance	650,000	793,967	793,967	-
State trunkline non-maintenance	15,000	-	-	-
Salvage sales	500	28,132	28,132	-
Other	-	13,356	13,356	-
Property taxes	945,000	945,883	945,883	-
Interest and rentals	115,000	131,442	131,442	-
Other revenue				
Gain on equipment disposals	150,000	43,200	43,200	-
Total revenues	<u>\$ 6,961,500</u>	<u>\$ 6,694,802</u>	<u>\$ 6,694,802</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

LEELANAU COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
Primary Road				
Construction	\$ -	\$ -	\$ -	\$ -
Heavy maintenance	2,005,000	2,249,198	2,249,198	-
Maintenance	700,000	1,060,839	1,060,839	-
Local Road				
Construction	350,000	256,928	256,928	-
Heavy maintenance	650,000	663,024	663,024	-
Maintenance	1,300,000	1,624,153	1,624,153	-
Total maintenance	5,005,000	5,854,142	5,854,142	-
Sundry expense	1,183,000	-	-	-
State trunkline maintenance	650,000	793,967	793,967	-
State trunkline non-maintenance	15,000	-	-	-
Equipment expense (net)	(487,000)	(66,130)	(66,130)	-
Administrative expense (net)	135,000	200,577	200,577	-
Capital outlay (net)	460,000	(559,421)	(559,421)	-
Total expenditures	<u>6,961,000</u>	<u>6,223,135</u>	<u>6,223,135</u>	<u>-</u>
Net change in fund balance	500	471,667	471,667	-
Fund balances, beginning of year	821,428	821,428	821,428	-
Fund balances, end of year	<u><u>\$ 821,928</u></u>	<u><u>\$ 1,293,095</u></u>	<u><u>\$ 1,293,095</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Leelanau County Road Commission (the “Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Leelanau County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Leelanau, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, demand and time deposit accounts, money market deposits, and certificates of deposit with original maturities of less than 90 days.

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. Inventory

Inventory, consisting of various operating parts, supplies and road material, is determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

3. Property Taxes Receivable

Property taxes are levied each December 1st on the taxable valuation of property located in the County as of the preceding December 1st. The 2007 tax levy amounted to \$1,057,869 less \$67,264 for incorporated cities and villages, on which ad valorem taxes of 0.5 mills were levied for the Road Commission for road construction purposes.

Although the County's 2007 ad valorem tax is levied and collectible on December 1, 2007, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements. The tax receivable is offset to deferred revenue.

4. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$10,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

Accounting standards require major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years since June 30, 1980 be inventoried and capitalized. The Road Commission has capitalized and reported the infrastructure assets on the statement of net assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives of the related assets (ranging from five to fifty years), which are standard useful lives for road commissions, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – roads	8 to 20 years

5. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. Management estimates each year for the anticipated back charges but the final amount of adjustments, if any, for the year ended December 31, 2007, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount from the estimated accrual.

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits depending on the date of hire. All accrued vacation and sick pay benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

Employees accrue vacation time based on a scale of longevity and is payable upon termination or retirement. Employees may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, employees are paid for 50% of their accumulated sick hours to a maximum of 280 hours at their current rate of pay.

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

Budgetary procedures are established pursuant to PA 521 of 1978, as amended, over 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Clerk and Superintendent-Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at year end.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

At December 31, 2007, the amounts of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured - collateralized	<u>592,107</u>	<u>653,342</u>
Total	<u>\$ 692,107</u>	<u>\$ 753,342</u>

The Road Commission had \$100 in petty cash at December 31, 2007.

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require, and the Road Commission does not have, a policy for deposit custodial credit risk.

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2007</u>
Capital assets not being depreciated				
Land and improvements	\$ 37,276	\$ -	\$ -	\$ 37,276
Capital assets being depreciated				
Land improvements	52,064	-	-	52,064
Buildings	1,553,441	-	-	1,553,441
Road equipment	7,930,242	95,499	141,334	7,884,407
Shop equipment	158,909	-	-	158,909
Office equipment	38,375	-	-	38,375
Engineers equipment	19,466	-	-	19,466
Yard and storage	601,188	-	-	601,188
Infrastructure – roads	<u>23,399,037</u>	<u>3,169,149</u>	<u>-</u>	<u>26,568,186</u>
Total capital assets being depreciated	<u>33,752,722</u>	<u>3,264,648</u>	<u>141,334</u>	<u>36,876,036</u>
Less accumulated depreciation				
Land improvements	31,238	5,206	-	36,444
Buildings	591,186	34,192	-	625,378
Road equipment	6,155,476	596,873	141,334	6,611,015
Shop equipment	150,132	1,901	-	152,033
Office equipment	36,696	832	-	37,528
Engineers equipment	18,856	253	-	19,109
Yard and storage	306,821	15,664	-	322,485
Infrastructure – roads	<u>4,369,438</u>	<u>904,580</u>	<u>-</u>	<u>5,274,018</u>
Total accumulated depreciation	<u>11,659,843</u>	<u>1,559,501</u>	<u>141,334</u>	<u>13,078,010</u>
Net capital assets being depreciated	<u>22,092,879</u>	<u>1,705,147</u>	<u>-</u>	<u>23,798,026</u>
Total net capital assets	<u>\$ 22,130,155</u>	<u>\$ 1,705,147</u>	<u>\$ -</u>	<u>\$ 23,835,302</u>

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2007 was as follows:

	<u>1/1/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/07</u>	<u>Due within one year</u>
Compensated absences	\$ 176,569	\$ 1,582	\$ -	\$ 178,151	\$ -

IV. OTHER INFORMATION

A. **Defined Benefit Pension Plan**

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$218,173 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006 the date of the latest actuarial valuation was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$ 141,432	100%	\$ -
12/31/2006	151,992	100	-
12/31/2007	218,173	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2004	\$1,632,340	\$3,631,325	\$1,998,985	45%	\$1,459,357	137.0%
12/31/2005	1,811,144	3,742,264	1,931,120	48%	1,390,350	138.9%
12/31/2006	2,040,828	3,989,967	1,949,139	51%	1,456,425	133.8%

Deferred Compensation Plan

The Leelanau County Road Commission offers all its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (the Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

B. Post Employment Benefits

The Road Commission does not provide post-employment benefits; however, a group health plan is made available to all retired employees and/or their spouses. This benefit includes a provision that the retiree remit 100% of the cost of the premiums.

LEELANAU COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Self-Insurance Pool

The Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

D. Contingencies

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

E. Single Audit

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During 2007, the Road Commission of Leelanau County expended federal awards in the amount of \$871,599. This entire amount represents Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of this project being performed at the State level, these expenditures will be included in the single audit procedures of the State and excluded from the Road Commission's single audit.

F. Prior Period Adjustment

Beginning net assets of the Road Commission was adjusted by a decrease of \$945,883 due to deferred revenue for property taxes that was incorrectly eliminated for the government-wide financial statements at December 31, 2006. This property tax revenue should have been deferred at December 31, 2006 as the tax revenue applied to the 2007 operations of the Road Commission.

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LEELANAU COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
Permits and licenses	\$ -	\$ -	\$ 10,227	\$ 10,227
Federal sources				
Surface transportation program	871,599	-	-	871,599
State sources				
Michigan transportation funds				
Engineering	3,000	7,000	-	10,000
Urban	13,731	17,425	-	31,156
Allocation	1,689,417	920,138	-	2,609,555
Snow removal	92,408	92,408	-	184,816
Economic development funds				
Rural primary (D funds)	360,315	-	-	360,315
Forest road (E funds)	-	39,753	-	39,753
Contributions from local units				
Townships	-	116,170	-	116,170
Other	76,800	428,431	-	505,231
Charges for services				
State trunkline maintenance	-	-	793,967	793,967
State trunkline non-maintenance	-	-	-	-
Salvage sales	-	-	28,132	28,132
Other	-	-	13,356	13,356
Property taxes	-	945,883	-	945,883
Interest and rentals	27,235	63,548	40,659	131,442
Other				
Gain on equipment disposals	23,820	16,347	3,033	43,200
Total revenues	\$ 3,158,325	\$ 2,647,103	\$ 889,374	\$ 6,694,802

LEELANAU COUNTY ROAD COMMISSION

**GENERAL OPERATING FUND
SCHEDULE OF EXPENDITURES BY COMPONENT**

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Construction				
Roads	\$ -	\$ 256,928	\$ -	\$ 256,928
Heavy Maintenance				
Roads	2,249,198	663,024	-	2,912,222
Maintenance				
Roads	1,060,839	1,624,153	-	2,684,992
State trunkline maintenance	-	-	793,967	793,967
State trunkline non-maintenance	-	-	-	-
Equipment expense (net)	(20,176)	(28,350)	(17,604)	(66,130)
Administrative expense (net)	113,410	87,167	-	200,577
Capital outlay (net)	(289,499)	(247,822)	(22,100)	(559,421)
Total expenditures	\$ 3,113,772	\$ 2,355,100	\$ 754,263	\$ 6,223,135

LEELANAU COUNTY ROAD COMMISSION

**GENERAL OPERATING FUND
SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT**

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 3,158,325	\$ 2,647,103	\$ 889,374	\$ 6,694,802
Total expenditures	<u>3,113,772</u>	<u>2,355,100</u>	<u>754,263</u>	<u>6,223,135</u>
Revenues over expenditures	44,553	292,003	135,111	471,667
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>821,428</u>	<u>821,428</u>
Fund balance, end of year	<u>\$ 44,553</u>	<u>\$ 292,003</u>	<u>\$ 956,539</u>	<u>\$ 1,293,095</u>



REHMANN ROBSON

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

March 18, 2008

Members of the Board of County
Road Commissioners
County of Leelanau, Michigan
10550 E. Eckerle Road
Suttons Bay, Michigan 49682

We have audited the financial statements of the governmental activities and the major fund of the ***Leelanau County Road Commission***, a component unit of Leelanau County, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated March 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leelanau County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider Finding 2007-1 as described in the accompanying schedule of financial statement findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Road Commission, in a separate letter dated March 18, 2008.

This report is intended solely for the information and use of management, the Board of Road Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.

Leelanau County Road Commission

Financial Statement Findings

December 31, 2007

Finding 2007-1: Segregation of Duties

- Criteria:** An important component of any internal control system is appropriate segregation of duties over key accounting functions.
- Condition:** The Road Commission Clerk currently performs several accounting functions of receipting, disbursing and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to different employees to minimize the potential for unauthorized transactions.
- Cause:** Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.
- Effect:** This condition provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.
- Recommendation:** The Board should be aware of the potential weaknesses in the internal controls system due to this lack of segregation of duties and provide appropriate oversight or assistance to personnel when cost beneficial

Leelanau County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the *Leelanau County Road Commission* as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Other Matters

Bank Reconciliation Process

Criteria: The Michigan Department of Treasury has recently issued guidance re-emphasizing its position as stated in the *Uniform Accounting Procedures Manual* that local units of government are required to prepare bank reconciliations for all cash accounts monthly. Auditors are now required to report to the Local Audit and Finance Division whether all bank reconciliations examined in connection with our audit were performed timely (i.e., within six weeks of each month end). In addition, to ensure good internal controls, bank reconciliations should be reviewed by a responsible official and both the preparer and the reviewer should initial and date the reconciliation as evidence.

Leelanau County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2007

- Condition:** We noted during our auditing procedures related to cash, that bank reconciliations are not being reviewed by a responsible official other than the preparer.
- Cause:** The cause of this condition is that the Commission has a small staff which makes independent review of bank reconciliations difficult.
- Effect:** As a result of this condition, the Commission does not have independent reconciliation of its bank statements.
- Recommendation:** We recommend that to strengthen internal controls in this area, bank reconciliations should be reviewed by a responsible official with a working knowledge of the Commission's bank accounts. To document the preparation and subsequent review, bank reconciliations should be initialed and dated by both the preparer and reviewer.

Preparation and Review of Journal Entries

- Criteria:** An important component of any internal control system is the independent review of journal entries as a check for accuracy, completeness and appropriateness.
- Condition:** As a part of our procedures related to Statements on Auditing Standards (SAS) No. 99, we reviewed the Commission's procedures related to journal entries and noted that once a journal entry is prepared, there is no independent review by another official.
- Cause:** This condition is the result of past practice of only one employee handling the general ledger function and lack of knowledgeable personnel dedicated to the Commission's accounting function.
- Effect:** This condition increases the likelihood that an inappropriate or fraudulent journal entry could be posted to the general ledger and not be detected. Also, it decreases the usefulness of interim financial reports because the probability that an "honest error" would not be caught is also significant.

Leelanau County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2007

Recommendation: Although we have reviewed 100% of journal entries prepared by the Road Commission during 2007 and noted no inappropriate or fraudulent journal entries, there is no control in place to review these entries internally. We recommend that a responsible official review journal entries after they are prepared as a check for journal entry appropriateness and completeness. This review should be done by an individual who has knowledge of the Commission's general ledger system and chart of accounts. The preparation and review should be documented by initialing and dating the printed copy of the entry. In order to make this process more efficient, the reviewer can sign off on one "blanket" approval form indicating that the review was for all journal entries or transfer vouchers for that month.

* * * * *